

***Technology, Telecommunications
& Energy Committee***

HB 1840

Brief Description: *Establishing standards to diversify resources and invest in energy efficiency.*

Sponsors: *Representatives Veloria, Barlean, Poulsen, Cooper, Tokuda, Linville, Morris, Wood, Ruderman, Simpson, Romero, Schual-Berke, Santos, Ogden, O'Brien and Miloscia.*

Brief Summary of Bill

- *Establishes a state-wide investment standard for investment in energy conservation, renewable energy research and development, and low-income energy services by both electric utilities and natural gas companies.*
- *Establishes a renewable energy performance standard requiring that an annual minimum percentage of energy sold must come from renewable energy resources.*
- *Directs the Department of Community, Trade, and Economic Development (DCTED) to convene a process to develop a program of renewable energy credits to facilitate utilities' ability to meet the performance standard.*

Hearing Date: *2/19/01*

Staff: *Pam Madson (786-7166).*

Background:

Traditionally, electric utilities have been guided in their efforts to acquire resources for meeting their customers' demand for electricity by a least cost planning analysis. Utilities choose a mix of supply and demand side resources that minimizes the cost of services to the customer. The mix may include electricity that is generated by the utility itself, purchased on long-term contracts from other producers, or may include some electricity purchased on the short-term or spot market. It may also include conservation and energy

efficiency.

In Washington, most of the electricity generated comes from hydroelectric projects. Hydroelectric projects account for 83 percent; coal represents 6.8 percent; nuclear power supplies 4.7 percent; and natural gas supplies 4.3. Non-hydro renewable resources such as wind, solar, or biomass represents 1.1 percent.

Though the Pacific Northwest has had some of the most successful conservation and research programs in the country, the recent history of investment in conservation and energy efficiency is one of decline. Investment in energy efficiency in Washington peaked in 1993 at approximately \$155 million and has declined to an estimated \$44 million in 1998. The Bonneville Power Administration's funding of energy efficiency research and investments has also dropped sharply.

Market transformation is an effort to increase the market share of targeted efficiency products and services through incentives that will be sustained after the incentives are removed. An example of market transformation is the use of incentives provided by utilities to improve the efficiency of manufactured housing. The demand for such housing became great enough to allow this product to maintain a share of the market without continued incentives.

The Northwest region has seen a growth in demand for electricity while at the same time has not seen much in the way of new generation. The Northwest Power Planning Council's prediction of an increasing possibility of power supply problems during the next few years and the region's recent experience with unprecedented high prices in the western power markets has focused attention again on conservation and energy efficiency and on development of alternative energy sources. The current market prices of electricity are making investments in renewable resources more economically viable than in the past when they have been significantly more expensive than fossil fuels.

Summary of Bill:

A state-wide standard is established for investment in energy conservation, renewable energy research and development, and low-income energy services by both electric utilities and natural gas companies. A renewable energy performance standard is also established. The standard requires that an annual minimum percentage of energy sold must come from renewable energy resources. The Department of Community, Trade, and Economic Development (DCTED) is directed to convene a process to develop a program of renewable energy credits to facilitate utilities' ability to meet the performance standard.

State-wide investment standard

Beginning July 1, 2002, a state-wide investment standard of 3 percent of total annual revenues from the retail sale of electricity is established for electric utilities. For direct service industrial customers (DSI) of the Bonneville Power Administration (BPA), the standard is 3 percent of its total expenditures for electricity. The investment standard for

natural gas is set at 2 percent of total annual revenues from the retail sale of natural gas.

The collection mechanism to ensure that the investment targets are met must be a nonbypassable collection mechanism and the appropriate mechanism must be determined by the governing body for public utilities and the Washington Utilities and Transportation Commission (WUTC) for investor-owned utilities. For DSI customers and other large use customers, payment of the 3 percent investment amount is made to the distribution utility in its area. Credit is allowed for its own conservation investments.

Investments must be made in energy conservation, including regional market transformation efforts, research, development and demonstration projects for non-hydro renewable energy sources (electricity only), and low-income energy efficiency services.

For public and private utilities, investment funds are allocated for the following purposes: 49.5 percent for conservation; 14 percent for cost effective regional energy efficient market transformation activities; 14 percent to DCTED for low-income efficiency services including weatherization; 18 percent to DCTED for low-income energy assistance to help pay electricity and natural gas bills; 4 percent for research, development and demonstration projects using renewable energy technology; and .5 percent to DCTED for monitoring and compliance activities to ensure that the standard is being met. These amounts may be adjusted under certain circumstances. Investment funds for natural gas include similar purposes except for activities that relate to market transformation efforts. The allocation percentages are adjusted accordingly.

Beginning October 1, 2003, public and private utilities and DSI customers must show compliance with the investment standards. Public utilities may join together to meet the minimum investment standard in the aggregate. Beginning July 1, 2004, unexpended funds carry over to the following year to be added to that year's investment or may be forwarded to DCTED for use on low-income energy efficiency services.

The Department of Community, Trade, and Economic Development may adopt rules for reporting expenditures and savings and must convene a stakeholder group to advise it on criteria for the various components of the standard and program implementation guidelines. The WUTC shall determine the criteria and implementation guidelines for investor-owned utilities.

Renewable energy performance standard

By calendar year 2003, 5 percent of the kilowatt-hours sold by a utility to retail customers in Washington must come from renewable energy resources. These resources include electrical generation or fuel cells using wind, solar energy, geothermal energy, methane gas from landfills, sewage treatment plants or animal wastes, and biomass energy from wood or field crops. The percentage increases to 10 percent by 2005, and increases 1 percent each subsequent year until 2015, by which time the percentage must be 20 percent. Certain adjustments may be made for multi-fuel facilities, full requirements customers of BPA, and qualifying low-density discount customers of BPA.

Renewable energy credits program

The Department of Community, Trade, and Economic Development must develop a renewable energy credits program to be implemented by 2004. Renewable energy credits may be sold or exchanges. By March 30, 2004, each retail electricity supplier must show evidence of sufficient energy credits to satisfy the performance requirement for a given year. If a federal standard is adopted that is the same or greater than the state standard, the state standard will be phased out. An enforcement mechanism is established that allows the DCTED to assess and collect funds from a noncomplying utility and distribute these funds to a qualifying nonprofit organization investing in new eligible renewable energy resources. The department may also assess administrative penalties.

Reporting

The Department of Community, Trade and Economic Development must begin reporting accomplishments of the investment and performance standards by December 1, 2004, and by January 1, 2015, shall review and recommend continuation or modification of the standards.

Appropriation: None.

Fiscal Note: Requested February 18, 2001.

Effective Date: Ninety days after adjournment of session in which bill is passed.